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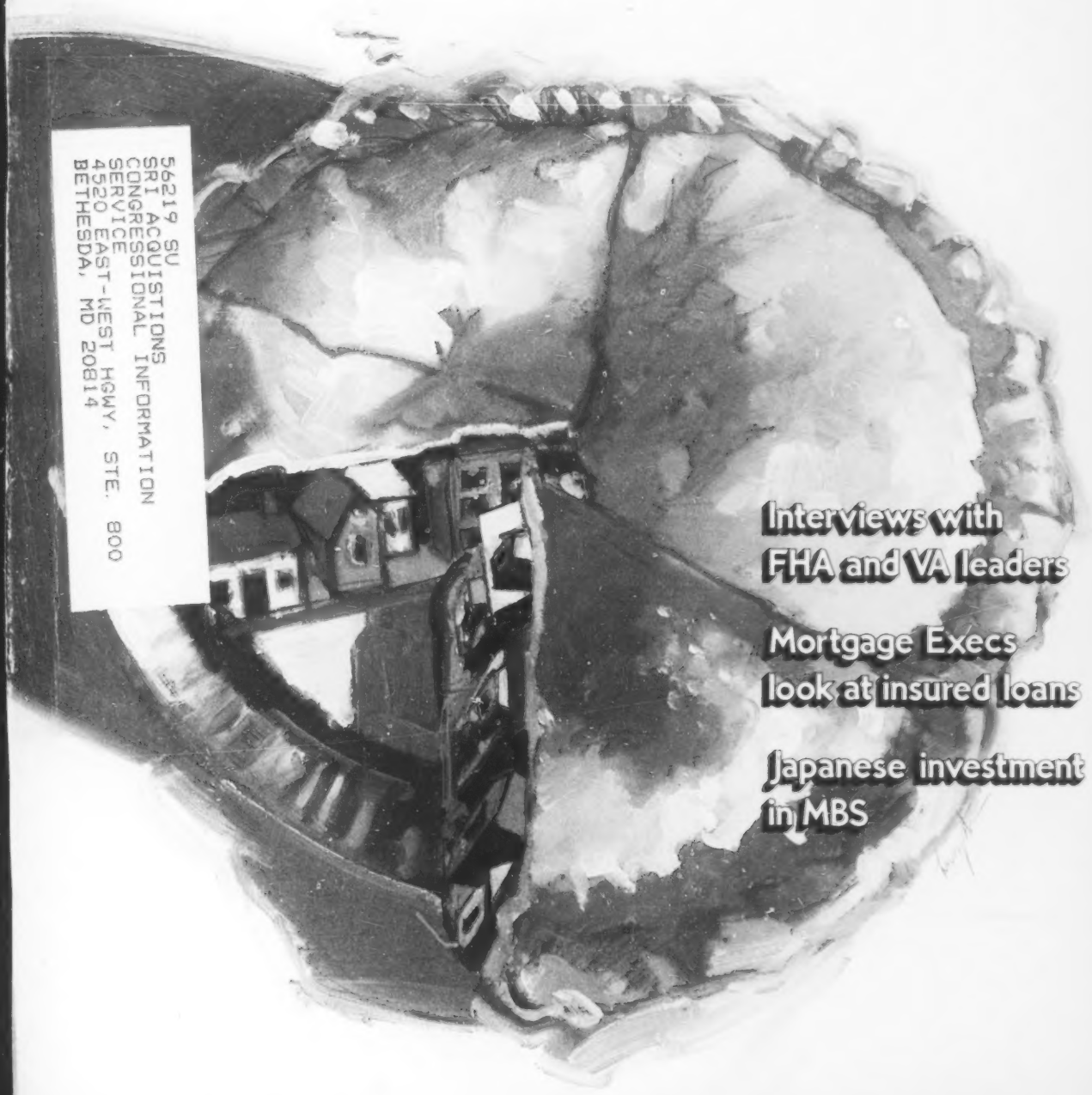
MORTGAGE BANKING

THE MAGAZINE OF REAL ESTATE FINANCE



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Interviews with FHA and VA leaders

Mortgage Execs look at insured loans

Japanese investment in MBS

MORTGAGE BANKING

VOLUME 48 NUMBER 5

President
JOHN M. TEUTSCH, JR., CMB

Executive Vice President
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Assistant Editor
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Production Aide
MOLLY GEREMIA

Circulation
BENNIE MURPHY

Art Director
SARAH CLARKE HOLLANDER

Art Production
LINDA M. ROLLA

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Business and Editorial Offices
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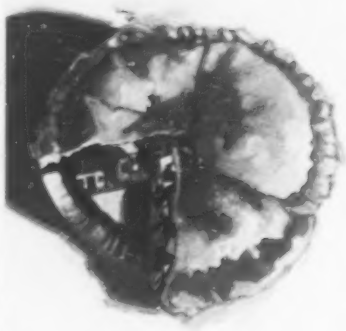
EDITORIAL PAGE



THE ISSUE

How is the mortgage pie being divided in today's market? With refinancings down to a minuscule level, 12 percent today compared to 30 to 40 percent a year ago, we are looking at a much smaller pie.

As we went to press, government insured loans were taking a smaller slice as ARMs did a rebound on the heels of rising rates.

All slices are significantly smaller than in 1987, with the number of FHA loans down by a third and privately insured loans down 13 percent.

But many factors affect the housing market, and we have a distance to go to determine if the pie is tart or sweet by year-end.

February's focus on insured loans includes two interviews with the heads of the FHA and VA loan programs—Thomas Demery and Keith Pedigo. Privately insured loans get their due in a mortgage market roundtable of industry leaders beginning on page 35.

Looking at the bigger pie of real estate investment is a freelance piece about Japanese investment in MBSs by Harvey D. Shapiro whose work has previously appeared in *Forbes, The New York Times,* and *Institutional Investor.*

Three articles on servicing address this function from a variety of perspectives: "Sell Servicing at a Profit" on page 59 tells how to value a servicing portfolio; "Measure Your Servicing Performance" on page 77 gives the results of a nationwide survey; and the Business Basics column "Quality Control Targets Loan Servicing" focuses on quality control for the servicing area.

Referral fees and RESPA regulations are on everybody's mind, and we include a commentary on page 85 about the issue by Bob Levy, executive director of the New Jersey MBA.

We think you'll find "Trouble in Paradise? Try These Fix-Ups for Resort Workouts" (page 66) and "Stop the Attack of the Equity Skimmers" (page 82) timely advice on these two issues.

And finally, we continue our series of articles aimed at managing the mortgage banking company with "Put Points on Your Branch's Scoreboard." The article advises branch and sales managers on how to get better results in managing personnel.

Jane DeMarines

Jane DeMarines
Senior Director
of Public Affairs
and Publications

THE ARTIST

The housing pie on this month's cover is by Francis Livingston. He studied at the Rocky Mountain School of Art in Denver and the Academy of Art College in San Francisco. His work has been published in *Communication Arts* and the *Society of Illustrators Annual.*

AND NEXT ISSUE

Automation Today and Tomorrow

Focus on Echo

Secondary Market Tracking

Standardization in Communication

CONTENTS

FEBRUARY 1988 VOLUME 48 NUMBER 5

Interview **14** **Face to Face with FHA & VA**
Leaders at FHA and VA discuss the government-insured share of the mortgage market.

Secondary Market **26** **How Do You Say Mortgage-Backed Security in Japanese?** *by* HARVEY D. SHAPIRO
Japanese investors look closely at an American innovation: the MBS

Private Mortgage Insurance **35** **How are Today's Lenders Choosing Mortgage Insurance?**
Mortgage banking executives discuss insured loans in today's market.

Internal Management **46** **Put Points on Your Branch's Scoreboard** *by* JAMES C. PRATT AND JAMES L. HENNESSY, JR.
Ten do's and don'ts for branch managers to use in improving performance.

Servicing **59** **Sell Servicing at a Profit** *by* KATHLEEN J. BRACE
Use this plan to save time and money in servicing portfolio sales.

Income Property **66** **Trouble in Paradise? Try these Fix-Ups for Resort Workouts** *by* GEORGE LEPOSKY
Lenders repackage troubled resorts to fit market demographics..

Servicing **77** **Measure Your Servicing Performance** *by* RELLEN M. STEWART AND PAUL HOLMES
A nationwide survey challenges the benefits of automating servicing.

Legal Affairs **82** **Stop the Attack of the Equity Skimmers** *by* MICHAEL S. POLK
Lenders can use better legal remedies to deal with equity skimming.

Regulatory **85** **RESPA: Referral Fees—Yes or No?** *by* E. ROBERT LEVY
A mortgage leader comments on the issue of referral fees.

Business Basics **89** **Quality Control Targets Loan Servicing** *by* ALAN KAPPELER
Investors demand more attention to servicing.

Departments

3 EDITORIAL PAGE
9 BUSINESS ALERT
11 LEGISLATIVE AND REGULATORY ALERT
89 BUSINESS BASICS
94 PEOPLE
100 BOOKS
103 SECONDARY MORTGAGE MARKET
105 MORTGAGE MARKET TRENDS
110 AD INDEX

HOUSING ACTIVITY

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

YEAR AND MONTH	HOUSING STARTS: Actual			HOUSING STARTS: Seasonally Adjusted Annual Rates			PERMITS 17,000 ISSUING PLACES: Actual			PERMITS 17,000 ISSUING PLACES: Seasonally Adjusted Annual Rates		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1987												
JUN	163	122	41	1,586	1,173	413	156	118	38	1,517	1,124	393
JUL	153	118	35	1,598	1,202	396	141	104	37	1,487	1,080	407
AUG	143	106	37	1,585	1,170	415	129	96	33	1,502	1,106	396
SEP	152	113	39	1,668	1,261	407	137	95	42	1,502	1,072	430
OCT	137	102	35	1,523	1,170	353	124	90	34	1,463	1,056	407
NOV$_p$	**116**	**82**	**34**	**1,637**	**1,179**	**458**	**100**	**71**	**29**	**1,453**	**1,055**	**398**
1986 TOTAL	1,805	1,263	542				1,769	1,185	584			
1985 TOTAL	1,742	1,166	576				1,733	1,077	657			
11 MONTHS												
1987	1,531	1,146	385				1,430	1,050	380			
1986	1,692	1,184	508				1,636	1,103	533			
1985	1,621	1,094	527				1,606	1,010	596			
1984	1,651	1,135	516				1,575	1,005	570			

RESIDENTIAL STRUCTURES BY REGION

(Units in thousands)

YEAR AND MONTH	HOUSING STARTS: Actual				HOUSING STARTS: Seasonally Adjusted Annual Rates				PERMITS 17,000 ISSUING PLACES: Actual				PERMITS 17,000 ISSUING PLACES: Seasonally Adjusted Annual Rates			
	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West
1987																
JUN	28	35	57	43	256	287	607	436	29	29	59	40	276	266	605	370
JUL	28	26	57	41	278	255	636	429	27	27	49	37	279	255	555	398
AUG	27	28	53	36	250	272	641	422	23	24	48	33	257	250	606	389
SEP	25	31	61	36	257	308	698	422	25	29	49	34	247	284	576	395
OCT	25	25	53	34	251	249	612	411	23	27	45	29	248	286	561	368
NOV$_p$	**21**	**24**	**44**	**28**	**256**	**303**	**643**	**435**	**20**	**20**	**36**	**24**	**274**	**276**	**524**	**379**
1986 TOTAL	294	296	733	484					283	290	687	510				
1985 TOTAL	252	240	782	468					560	237	753	484				
11 MONTHS																
1987	255	283	595	398					257	271	539	376				
1986	274	277	694	447					263	271	643	459				
1985	235	227	725	435					242	220	690	453				
1984	190	233	815	413					186	200	760	430				

HOUSING ACTIVITY (Cont'd.)

YEAR AND MONTH	HOUSING SALES (Units in thousands) EXISTING HOUSES[1]	NEW HOMES Sold	NEW HOMES Available For Sale	NEW HOMES Months Supply at Current Rate	VALUE OF NEW CONSTRUCTION PUT IN PLACE (Dollars in billions) Seasonally Adjusted Annual Rate Total	1 Unit	2+ Units	Non-res.	CONSTRUCTION STATUS (Units in thousands) Seasonally Adjusted Annual Rate Under Construction Total	1-4 Units	5+ Units	Completions Total	1-4 Units	5+ Units
1987														
JUN	360	58	359	6.8	224.8	113.1	25.0	86.7	1,059	669	390	147	108	39
JUL	333	55	359	6.6	225.8	114.2	23.6	88.0	1,053	672	381	143	101	42
AUG	319	56	361	6.6	228.3	114.4	23.8	90.1	1,049	672	377	152	107	45
SEP	294	53	361	6.8	229.2	116.5	23.5	89.2	1,054	676	378	143	109	34
OCT	301	53	359	6.4	231.1	117.5	23.6	90.0	1,051	677	374	148	113	35
NOV$_p$	**241**	**47**	**360**	**6.5**	**239.0**	**118.6**	**24.2**	**96.2**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
1986 TOTAL	3,565	750										1,756	1,206	550
1985 TOTAL	3,214	688										1,704	1,170	534
11 MONTHS														
1987	3,307	639										1,382*	983*	399*
1986	3,298	700										1,582	1,086	496
1985	2,998	639										1,541	1,056	485
1984	2,694	614										1,503	1,034	469

*10-month totals

LENDER ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED

By Type of Institution and By Unit Type

(Dollars in millions)

YEAR AND MONTH	TOTAL Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.	1-4 UNITS Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.
1987										
MAR	$58,138	$14,311	$18,044	$22,906	$2,877	$42,300	$13,876	$15,084	$12,787	$553
APR	64,179	15,043	21,260	25,236	2,640	48,463	14,507	18,100	15,458	398
MAY	63,448	13,305	21,157	26,212	2,774	46,949	13,013	18,107	15,695	134
JUN	65,219	10,121	23,453	28,840	2,805	46,706	9,609	19,489	17,278	330
JUL	57,797	8,182	19,800	26,869	2,946	39,563	7,806	16,733	14,652	372
AUG$_p$	**47,274**	**6,750**	**16,731**	**20,747**	**3,036**	**32,592**	**6,558**	**14,192**	**11,598**	**244**
1986 TOTAL	633,959	142,884	218,118	235,514	37,443	450,232	131,628	176,073	138,717	3,814
1985 TOTAL	362,128	69,156	145,372	119,616	27,983	238,386	63,296	109,276	64,508	1,306
8 MONTHS										
1987	447,340	87,998	146,530	192,512	20,310	322,577	84,172	122,956	112,982	2,467
1986	376,755	88,547	133,617	133,910	20,681	273,462	82,161	109,481	79,539	2,281
1985	221,217	42,705	89,760	74,20[illegible]	14,551	148,963	39,233	68,313	40,821	596
1984	202,126	36,858	90,34[illegible]	[illegible]	10,460	140,746	34,515	68,751	36,941	539

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LENDER ACTIVITY (Cont'd.)

LONG-TERM MORTGAGE LOANS CLOSED (Cont'd.)

(Dollars in millions)

YEAR AND MONTH	5+ UNITS					NONRESIDENTIAL				
	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.
1987										
MAR	$2,852	$71	$1,431	$1,017	$333	$12,987	$364	$1,530	$9,102	$1,991
APR	3,857	60	1,404	2,146	247	11,859	476	1,756	7,632	1,995
MAY	2,771	60	1,570	807	334	13,728	232	1,480	9,710	2,306
JUN	3,768	284	2,028	1,164	292	14,745	228	1,936	10,398	2,183
JUL	3,174	236	1,499	1,053	386	15,060	140	1,568	11,164	2,188
AUG$_p$	**2,467**	**80**	**1,376**	**772**	**239**	**12,215**	**122**	**1,163**	**8,377**	**2,553**
1986 TOTAL	40,449	7,172	19,877	9,677	3,723	143,278	4,084	22,168	87,120	29,906
1985 TOTAL	26,498	2,746	15,612	5,368	2,772	97,244	3,114	20,485	49,740	23,905
8 MONTHS										
1987	24,363	1,542	11,793	8,930	2,098	100,400	2,274	11,781	70,600	15,745
1986	22,110	4,002	10,881	4,781	2,446	81,183	2,384	13,255	49,590	15,954
1985	15,543	1,502	8,713	4,077	1,251	56,711	1,970	12,734	29,303	12,704
1984	13,634	348	8,611	3,864	811	47,746	1,995	12,985	23,656	9,110

LONG-TERM COMMITMENT ACTIVITY

By Type of Institution

(Dollars in millions)

YEAR AND MONTH	ISSUED DURING MONTH					OUTSTANDING				
	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.
1987										
MAR	$48,241	$12,078	$22,955	$10,116	$3,092	$137,753	$20,110	$53,750	$47,902	$15,991
APR	49,919	11,247	24,471	10,556	3,645	139,074	19,788	56,532	45,943	16,811
MAY	53,969	11,302	24,203	14,730	3,734	151,197	22,151	57,828	53,200	18,018
JUN	47,463	6,429	24,594	13,836	2,604	139,189	14,507	56,330	51,138	17,214
JUL	37,430	5,600	20,616	7,849	3,365	142,544	13,490	53,857	57,754	17,443
AUG$_p$	**33,992**	**5,713**	**19,065**	**7,284**	**1,930**	**130,926**	**13,206**	**53,639**	**46,601**	**17,480**
1986 TOTAL	527,397	128,480	231,915	127,902	39,100					
1985 TOTAL	324,089	59,551	170,755	61,311	32,472					
8 MONTHS										
1987	340,171	70,354	166,767	80,726	22,324					
1986	357,253	86,928	156,612	86,251	27,462					
1985	205,488	36,530	109,718	38,669	20,571					
1984	181,994	31,837	103,333	33,568	13,256					

MORTGAGE INSURANCE

(Units in thousands, Dollars in millions)

YEAR AND MONTH	APPLICATIONS RECEIVED (Units)				LOANS INSURED							
	Total	FHA[3]	VA	Private	Total		FHA		VA		Private	
					Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
1987												
JUN	212	93	43	76	220	15,565	121	7,566	47	3,424	52	4,575
JUL	193	89	37	67	210	14,885	117	7,341	41	2,978	52	4,566
AUG	166	77	32	57	225	15,678	142	8,902	37	2,819	46	3,957
SEP	148	68	26	54	175	12,437	99	6,180	33	2,488	43	3,769
OCT	138	56	24	58	108	10,744	79	4,816	29	2,183	42	3,745
NOV$_p$	**119**	**49**	**21**	**49**	**679**	**9,272**	**67**	**4,093**	**26**	**1,883**	**38**	**3,296**
1986 TOTAL	3,283	1,908	452	923	1,852	127,759	921	56,901	345	24,720	586	46,138
1985 TOTAL	2,194	902	251	1,041	1,333	87,485	410	23,964	192	13,046	731	50,475
11 MONTHS												
1987	2,234	1,163	393	678	2,156	150,741	1,249	77,566	431	31,804	476	41,371
1986	3,066	1,797	412	857	1,678	115,448	833	51,370	307	21,953	538	42,125
1985	2,031	822	229	980	1,237	80,920	383	22,358	174	11,700	680	46,862
1984	1,735	426	182	1,127	1,325	85,042	253	13,688	185	11,882	887	59,472

SECONDARY MARKET ACTIVITY

(Dollars in millions)

YEAR AND MONTH	FNMA Portfolio Comm.	FNMA Portfolio Purc.	FNMA Mortgage-Backed Securities[1] Outstanding	FNMA Mortgage-Backed Securities[1] Issued	FHLMC* Comm. to Sell	FHLMC* Comm. to Buy	FHLMC* Mtg. Purc.	FHLMC* Mtg. Sold	GNMA Pass-Through Securities Applications	GNMA Pass-Through Securities Issued
1987										
JUN	$1,745	$1,690	$121,270	$6,648	$6,781	$6,309	$7,864	$7,436	$14,077	$8,440
JUL	2,373	1,569	125,461	5,842	5,521	2,715	7,252	6,825	7,594	8,807
AUG	2,276	1,613	127,881	3,997	4,462	4,452	5,031	4,721	6,533	8,245
SEP	1,842	1,743	130,540	4,083	3,663	2,917	4,297	4,158	16,472	6,499
OCT	1,566	1,278	133,102	3,819	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
NOV$_p$	**2,899**	**1,297**	**134,633**	**2,702**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
1986 TOTAL	32,987	30,826	—	60,566	106,563	136,179	103,474	102,443	152,911	98,169
1985 TOTAL	20,225	19,848	—	23,649	44,025	56,689	44,012	41,454	64,360	45,868
11 MONTHS										
1987	22,300	16,784	—	56,856	60,966	64,835	67,522	65,964	106,420	83,344
1986	31,716	28,490	—	55,073	77,705	106,586	70,740	68,911	119,355	66,211
1985	18,367	19,848	—	20,384	31,446	34,488	31,021	28,589	46,014	30,303
1984	18,249	14,759	—	12,254	20,359	21,606	12,642	11,590	27,527	21,883

*Year-to-date totals for FHLMC and GNMA are for nine months only.

INTEREST RATES AND YIELDS

1- to 4-UNIT MORTGAGES

YEAR AND MONTH	FHA OPINION SURVEY FHA New[4]	FHA OPINION SURVEY CONVENTIONAL New	FHA OPINION SURVEY CONVENTIONAL Existing	FHLBB SURVEY CONVENTIONAL New	FHLBB SURVEY CONVENTIONAL Existing	FNMA 1 Yr. ARM (1%/Yr.)	FNMA FRM Conv.
1987							
JUL	10.38%	10.22%	10.23%	9.44%	9.43%	8.45%	9.773%
AUG	10.55	10.37	10.38	9.38	9.41	8.91	10.007
SEP	11.22	10.86	10.87	9.37	9.25	9.43	10.643
OCT	10.90	10.84	10.87	9.25	9.22	9.71	11.030
NOV	n.a.	n.a.	n.a.	9.35	9.32	9.06	10.345
DEC$_p$	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**10.15**	**9.613**

CURRENT SECONDARY MARKET YIELDS

SELECTED SECURITIES

YEAR AND MONTH	GNMA[6]	FNMA[6]	FHLMC[6]	A-Rated[7] Utility	U.S. Government 10-yr.	U.S. Government 26-wk.	Prime Comm. Paper 90-119 Days
1987							
JUL	9.62%	9.64%	9.59%	10.17%	8.45%	5.76%	6.65%
AUG	9.79	9.73	9.70	10.37	8.76	6.15	6.71
SEP	10.43	10.29	10.25	10.84	9.42	6.61	7.37
OCT	10.64	10.61	10.57	11.07	9.52	6.65	7.89
NOV	10.03	9.86	9.82	10.39	8.86	6.19	7.17
DEC	**10.04**	**9.96**	**9.92**	**10.42**	**8.99**	**6.36**	**7.61**

SPREADS (Basis Points)

YEAR AND MONTH	FHA New Minus A-Utility	GNMA Minus 10-Yr. Govt.	FNMA Minus 10-Yr. Govt.	FHLMC Minus 10-Yr. Govt.
1987				
JUL	21	117	119	114
AUG	18	103	97	94
SEP	15	101	87	83
OCT	−17	112	109	105
NOV	n.a.	117	100	96
DEC	**n.a.**	**n.a.**	**n.a.**	**n.a.**

NA—Not available; p—Preliminary.

[1] From the National Association of Realtors "Existing Home Sales" series.

[2] Mutual Savings Banks and Commercial Banks.

[3] FHA applications received includes the Direct Endorsement Program starting in 1984.

[4] Secondary market gross yields.

[5] Federal Home Loan Mortgage Corp. Existing Construction only.

[6] Securities for 0 to 30 day delivery.

[7] Prior to January 1984 this rate was for Aaa-rated New Issue Utility Bonds.

[8] Year-to-date seasonally adjusted series not calculated.

[9] 1985 data on mortgage bankers obtained from the HUD Survey of Mortgage Lending Activity.